

Credit Union Division News

ISSUE 10

JANUARY THROUGH
MARCH

Search for NASCUS CEO Ends

The process NASCUS conducted to search for and evaluate candidates for the position of president and chief executive officer for the National Association of State Credit Union Supervisors (NASCUS) has ended.

After a four-month search, a seven-person search committee chaired by Jim Forney, superintendent of credit unions, Iowa Department of

Commerce, Credit Union Division, submitted their recommendation to the NASCUS Board.

The Board accepted the search committee's recommendation of Mary Martha Fortney.

Mary Martha Fortney has had a 10-year career with NASCUS serving as the former vice president of regulatory affairs and before that she was the director of accreditation and com-

munications. Prior to becoming acting president, Mary Martha also served as a staff liaison to the NASCUS Association and Credit Union Council Regulatory Development Committees.

Lehigh Employees Credit Union Merges

The merger between Lehigh Employees Credit Union in Mason City and Mercy-City Family Credit Union also in Mason City was completed February 1, 2004. Lehigh Employees Credit Union was

issued a Certificate of Organization on September 18, 1941. The field of membership consisted of the employees of the Lehigh Portland Cement Company and members of the immediate family of such persons. The Lehigh Employees field of

membership has transferred over to the Mercy-City Family's field of membership.

With this merger, the Lehigh Employees membership will receive additional
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View the 2003 Annual
Report now available on
the Division web site.

Iowa Credit Unions - 2003 At a Glance

ASSETS/LOANS/DEPOSITS/EQUITY:

[9 month period ending September 30, 2003]

vAssets:	\$4.845 billion	[increase	\$382 million (?10.7%)]
vLoans:	\$3.318 billion	[increase	\$260 million (?10.6%)]
vShares/Deposits:	\$4.125 billion	[increase	\$291 million (? 9.5%)]
vEquity:	\$ 515 million	[increase	\$ 30 million (? 7.7%)]

The 2003 Annual Report is now available on the Division website at www.iacudiv.state.ia.us

Credit Union Review Board Meeting

The Credit Union Review Board meets April 12, 2004, 10:00 a.m., at the Credit Union Division located on 200 East Grand, Suite 370, Des Moines, IA

AGENDA

- | | | |
|------------------------------|---|-------------------------------|
| I. Call to Order & Roll Call | II. Presentation of Members of the Public | • Administrative Rules Update |
| | III. Minutes of the Previous Meetings | VII. New Business |
| | • January 12, 2004 | • Budget Update |
| | IV. Report of the Superintendent | • Auditor of State Report |
| | V. Committee Reports | • SF 2298/HF 2484 |
| | VI. Unfinished Business | VIII. Next Meeting Date |
| | | July 12, 2004 |

THE IMPORTANCE OF ALM IN YOUR CREDIT UNION

The importance of ALM goes well beyond the interest rate and liquidity risks of real estate lending, complex/long term investments and excess borrowing. Examiners most often focus on these activities because of the higher risk they create. Sound practices, are in fact, crucial when engaged in higher risk activities. However, sound practices are important to all credit unions. Why are they so important? It's because ALM practices influence potential earnings and liquidity position. This is true of even the smallest, simplest

credit union.

The risk based examination system splits ALM, the "L" of the CAMEL, into two parts, Interest rate risk (IRR) and liquidity risk. IRR and liquidity risk are closely related. That is why the CAMEL considered them under the heading. Actions taken to improve the risk position of one will normally affect the other.

IRR is the part that influences earnings. It is the part we will be focusing on. IRR is defined as the risk that changes in market interest rates

will impact the income statement and balance sheet in a way that reduces earnings and capital.

Why do IRR practices that were designed to manage risk influence earnings? The answer is in how IRR policies control the structure of your balance sheet and influence the pricing of loans and shares.

The most common IRR policy element is the loan to share ratio. It locks in a set relationship between loans and shares. (con't on page 3)

Iowa Credit Unions - 2003 At a Glance (continued)

MERGERS:

- v 8 Completed, 7 pending
- 6 completed in 2002
 - 8 completed in 2001
 - 6 completed in 2000

SEG's:

v 19 Employee groups approved with 1481 potential members

COMPLAINTS:

v 42 Complaints received, (3 outstanding)

BRANCH OFFICES:

- v 10 Approved
- 6 Mergers
 - 2 Relocations
 - 2 Actually new offices (compares to 30 new bank branches)

ATM'S:

- v 83 ATM's approved
- 53 By one credit union

DIVISION EXAMINATIONS & CONTACTS:

- v 158 Examinations (4.527 billion]
v 42 Contacts [623 million]
- (continued on page 4)

THE IMPORTANCE OF ALM IN YOUR CREDIT UNION (continued)

Policy may also limit certain loan and investment types. Some credit unions also limit the percentage of member certificates to total shares or assets. The combined effect of these policies controls what assets and liabilities make up the balance sheet.

The desire to stay within policy limits influences the pricing of loans and shares. In fact, pricing is really an ALM activity. The rate is the most importance factor in influencing loan and share balances, which controls the structure of most of the balance sheet. Experience tells us that setting a loan rate above market will decrease the number of loans made. Setting the rate below mar-

ket will increase lending activity. Raising and lowering rates has the opposite effect of shares. Shares increase with above market rates and decrease with below market rates.

Loans make up the largest portion of assets and shares make up largest portion of liabilities on credit union balance sheets. ALM concepts, mostly through IRR controls, decide the amount and price of both loans and shares. This in turn has a very powerful effect on your net margin (interest received on loans and investments less dividend expense). Although net margin is not the final part of the earnings equation, you still need to subtract ex-

penses and you may also have fee income, it does largely determine how much money you have to spend.

The above shows how today's actions to manage the balance sheet, especially the pricing of loans and shares, determines tomorrow's income. These are the basic rules behind all IRR management.

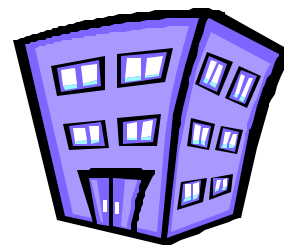
Lehigh Employees Credit Union Merges (continued)

services.

The Mercy-City Family Credit Union will continue to keep the office open at 702 North Federal Avenue in Mason City. The office hours are Monday through Friday,

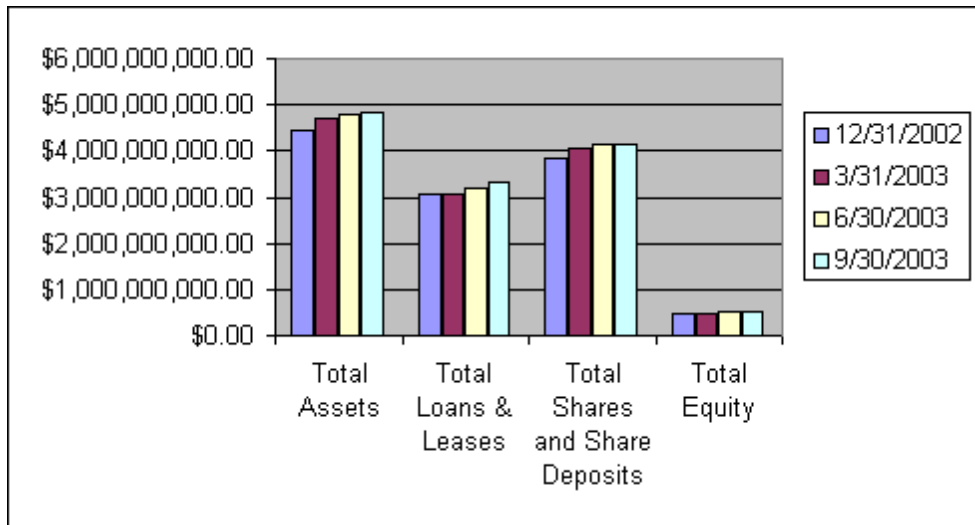
7:30 a.m. to 5:30 p.m., and 9:00 a.m. to 12:00 p.m. on Saturdays. The Mercy-City Family Credit Union's main office is located at 1341-6th Street SW in Mason City. You may reach the main of-

fice at 641.422.7361.



Iowa Credit Unions - 2003 At a Glance (continued from page 3)

	12/31/2002	3/31/2003	6/30/2003	9/30/2003
Total Assets	\$4,463,835,615.00	\$4,706,190,314.00	\$4,795,467,468.00	\$4,845,120,221.00
Total Loans & Leases	\$3,058,465,576.00	\$3,079,855,253.00	\$3,181,578,333.00	\$3,318,548,119.00
Total Shares and Share Deposits	\$3,834,258,091.00	\$4,061,528,309.00	\$4,124,748,387.00	\$4,125,663,265.00
Total Equity	\$485,294,705.00	\$496,023,533.00	\$507,142,899.00	\$515,457,228.00



THE IMPORTANCE OF ALM IN YOUR CREDIT UNION (continued from page 3)

You may be asking yourself, "How can I take advantage of this." If you have the resources to pay for it, you could use ALM software. These programs analyze your balance sheet and predict future earnings. This allows you to make changes in your balance sheet and prevent undesirable declines in income before they occur.

What if you do not have the resources for ALM software? This is not a serious problem as long as you are not engaged in the higher risk activities mentioned at the start of this article. If your balance sheet is made up of consumer loans and typical share products, you can control your risk by monitoring net margin.

Track your net margin over time and watch for changes. If net margin reflects a declining trend, it tells you need to make changes to maintain your income. Adjusting the price on loans and shares will usually bring your net margin back to a desirable level.